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DIRECTORATE OF
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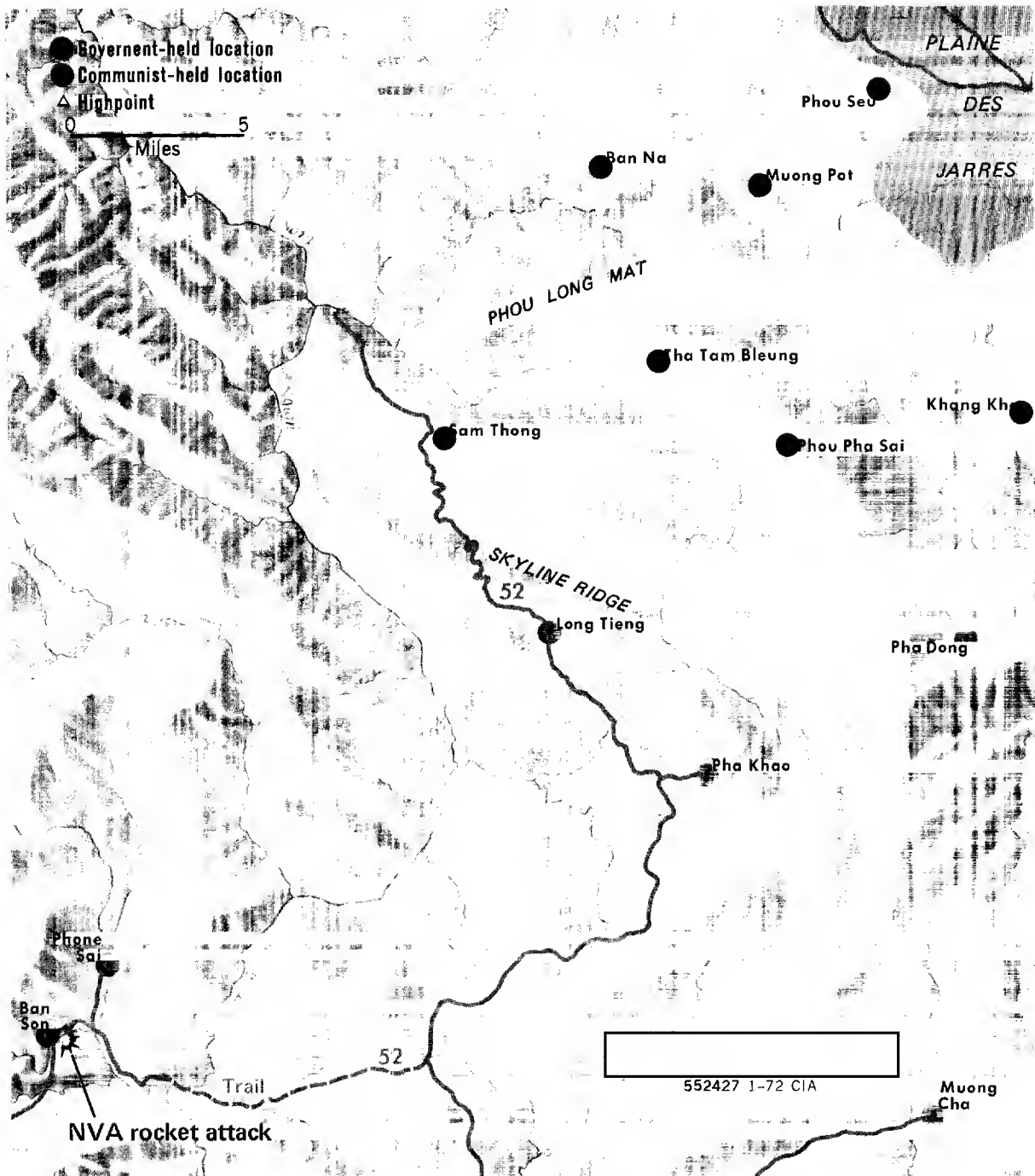
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LONG TIENG AREA



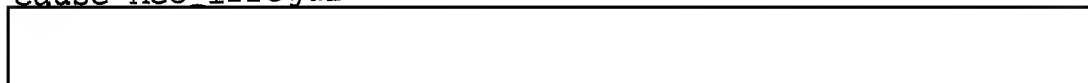
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[LAOS: Despite Hanoi's claims that "Pathet Lao forces" have captured Long Tieng, the most recent reports indicate that as of the morning of 13 January (Vientiane time), fighting was still going on in the valley and nearby positions.

To the southwest of Long Tieng, the Communists launched a small rocket attack on Ban Son, the new government support base. This may well presage a growing Communist interest in this area, which is also the center of the Meo refugee settlements. There is no evidence that any main force North Vietnamese units have moved into this area, but a threat to Ban Son or the refugee settlements could well cause Meo irregulars to desert the Long Tieng area.



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ISRAEL: Defense Minister Dayan and Finance Minister Sapir have agreed on the size of the defense budget for the fiscal year beginning 1 April.

The Ministry of Defense is to be allocated \$1.35 billion, and up to \$24 million more will be made available through the so-called general reserve of the national budget. Previously, Sapir had advocated that the defense budget be cut to \$1.25 billion, but Dayan had held that any reduction below \$1.43 billion would endanger national security.

The new defense allocation is significantly less than actual outlays in the current fiscal year. Although only \$1.24 billion originally was included for the Ministry of Defense in the national budget for this fiscal year, supplementary appropriations and transfers from reserve funds will bring actual defense spending to about \$1.55 billion.

While the previously sacrosanct defense budget was not trimmed as much as Sapir had advocated, the reduction that was achieved will strengthen the finance minister's hand in his continuing effort to pare the budget requests of civilian ministries. Some \$83 million of the defense appropriation is being rationalized as a "borrowing from the 1973/74 defense budget" in an attempt to reinforce this effect. The final figure was a compromise between Sapir and Dayan and does not represent a significant victory for either of the two ministers, both of whom have been mentioned as possible successors to Prime Minister Meir.

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CHILE: The congressional by-elections on Sunday to fill a senate and a house seat are being billed as a major political test of President Allende's support.

The campaign is being hotly contested by the opposition Christian Democratic (PDC) and National parties and Allende cannot be confident that his candidates will win. Leaders of both the government's Popular Unity Coalition (UP) and the opposition believe that the UP senatorial candidate may win and that the opposition candidate for the house seat may be victorious. Both sides admit that the contests will be close.

There has been some violence already and more is likely. PDC leaders hope that the government's attempts to create an atmosphere of tension will backfire.

Defeat of the government's candidates would be interpreted by many Chileans as another sign that Allende is losing the majority support he claims to enjoy. If the UP candidates win, Allende's prospects for regaining the political initiative that he has lost in recent weeks will be strengthened.

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US-EC: In the current round of the trade talks the EC is unlikely to offer concessions that will have a substantial impact on US trade performance.

The EC has not improved its earlier negotiating mandate. A preparatory meeting of member-state and Commission officials last week decided, for the moment at least, not to expand the Commission's negotiating instructions. This decision is consistent with comments by French officials that the US will get less than it wants in the current talks, but should be satisfied with some short-term concessions in order not to prejudice the atmosphere for later, more far-reaching trade negotiations. The Luxembourg official chairing the member-state preparatory committee nevertheless believes that the Commission might seek certain revisions of its negotiating mandate if the US can "specify the priorities of its demands."

On the important issue of grain prices Community negotiators will continue to insist there can be neither a reduction nor a freeze, and that fundamental US-EC agricultural problems can only be resolved through negotiation of world-wide commodity agreements. The Commission's latest price proposals for the 1972-73 crop year, in fact, are substantially higher than earlier recommendations.

Some progress can be expected in negotiations on proposals designed to reduce the impact of last year's record EC grain production on world prices and on US grain exports. The Community may expand its proposal to increase the EC wheat stock to 3.6 million tons, or ten percent of annual production. EC negotiators are also likely to clarify their proposal that export rebates be adjusted for a period to moderate Community competition with US grain exports in third country markets.

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Some progress can also be expected in negotiations on citrus and tobacco. Community concessions in these specific areas could ameliorate long-standing and politically important bilateral trade irritants, but they will have little impact on US exports. Europeans, meanwhile, are attributing the continued relative weakness of the dollar in part to expectations that the trade negotiations will yield few significant results. The US has tied a formal change in the price of gold to success in the talks.



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POLAND - WEST GERMANY: Normalization of relations has been strained by a slowdown in the emigration of Poland's ethnic Germans to West Germany.

Although 25,000 ethnics--more than double the number in any previous year--were allowed to resettle during 1971, Bonn is concerned about the greatly reduced rate of emigration to West Germany toward the close of the year. Bonn Foreign Office officials claim the flow dwindled to 1,000 in December and that the current rate does not conform to the accord reached in connection with the Warsaw Treaty of December 1970 in view of the approximately 300,000 pending requests for emigration. In spite of Polish reassurances, the slow pace of repatriation has continued into January.

Warsaw takes the position that the departure of so many has caused hardships for the Polish economy. The Polish Government now is insisting, for example, that a replacement be available for any farmer who wishes to emigrate. The real source of Warsaw's disenchantment, however, is the lack of significant progress in bilateral economic cooperation since the Warsaw Treaty was signed. Stalled negotiations over the establishment of a Polish consulate in Cologne also have served to sour bilateral relations.

Red Cross representatives from both countries will meet later this month to discuss repatriation, but the issue is not likely to be resolved in the near future. As the prospects dim for West German economic concessions to Poland, Warsaw may seek to expand trade and aid with other West European countries. Indeed, party boss Edward Gierek is scheduled to visit France in the spring and UK Prime Minister Heath will go to Poland sometime this year.



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MOROCCO: King Hassan has made clear his intention to continue his domination of politics, even if the government is broadened to include opposition party leaders.

Hassan and the National Front apparently have reached a tentative agreement for the latter's entry into the government. The National Front, comprised of the conservative Istiqlal Party and the Leftist National Union of Popular Forces (UNFP), reportedly will be allowed to select most cabinet ministers, with the possible exception of the defense and interior portfolios. Discussions are continuing on opposition demands for parliamentary elections and constitutional changes. The agreement also reportedly provides for the return of some exiled opposition leaders and amnesty for UNFP members sentenced for treason last year. Public announcement of the agreement may come within a few weeks.

Hassan in a recent speech strongly emphasized that the monarchy is the institution that speaks for the Moroccan people as a whole. In an oblique reference to the politicians, he said that "the train of state is ready to take on board" individuals willing to work for "the betterment of the national interest." He made it clear that he intends to run the "train."

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PAKISTAN: Breaks in relations with Poland, Mongolia, and Bulgaria because of their recognition of Bangladesh appear primarily intended to satisfy domestic public opinion. It is not clear whether similar action would follow recognition by a country more important to Islamabad, such as the UK or USSR. President Bhutto has stated publicly that there will be no automatic breaks, but public opinion could force action against any nation that is viewed as acting precipitately. In announcing the break with Sofia, the government emphasized that the status of East Pakistan has not yet been settled, suggesting that it is seeking to delay rather than to prevent recognition. Pakistan's decision may give the USSR pause. Moscow hopes to maintain its presence in Islamabad and would prefer that some non-socialist countries recognize Bangladesh before the Soviets follow suit.

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USSR-CUBA: A Soviet ocean-going rescue tug now nearing Cuban waters will probably relieve a similar tug that has been supporting Soviet naval operations in Cuba since September 1970. Two Osa-class patrol boats arrived in Havana on 12 January after being towed across the Atlantic. The Soviets may conduct familiarization training with the Cubans before the Osa's are turned over to Castro's navy. The Kashin-class destroyer and F-class diesel attack submarine that arrived in Cuba last October continue to operate from Mariel,

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HUNGARY: Budapest has stiffened the punishment for all drug-related offenses. A new decree, effective 1 January, provides for one to five years imprisonment for anyone who manufactures, sells, or transports hallucinatory drugs. A former statute did not cover the transit of drugs across Hungarian territory and called for a maximum sentence of only three years. The stiffer penalties are a direct outgrowth of the regime's greater willingness to cooperate with other governments in suppressing drug traffic. Although Hungary does not have an indigenous drug problem, in recent years it has become a route for transport of drugs from the Middle East to Western Europe.

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TRINIDAD AND TOBAGO: Following the lead of the major petroleum exporting countries, the government is seeking a greater share of foreign-owned oil company profits. It is now negotiating with Texaco and Shell to increase tax rates retroactive to 1970, and may soon attempt to increase its tax take from other foreign-owned oil companies. During the last two years budget strains have been growing rapidly, mainly because the Williams administration has been pursuing an expansionary fiscal policy to spur economic activity. Moreover, petroleum revenues have fallen from the peak 1968 level, although they still account for one fourth of total tax receipts.

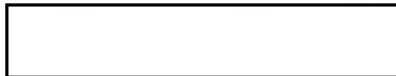
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NATIONAL INTELLIGENCE ESTIMATE

The United States Intelligence Board on 13 January 1972 approved the following national intelligence estimate:

NIE 93-72 "The New Course in Brazil"



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